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THE UNIVERSITY OF ALBERTA

CORPORATISM AND NATIONALIZATION: THE CASE OF THE PETROLEUM INDUSTRY IN MEXICO

by

© GABRIEL NICOLAS, Jr.

A THESIS
SUBMITTED TO THE FACULTY OF GRADUATE STUDIES
AND RESEARCH IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS

in

DEPARTMENT OF POLITICAL SCIENCE

EDMONTON, ALBERTA
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THE UNIVERSITY OF ALBERTA

FACULTY OF GRADUATE STUDIES AND RESEARCH

The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies and Research, for acceptance, a thesis entitled CORPORATISM AND NATIONALIZATION: THE CASE OF THE PETROLEUM INDUSTRY IN MEXICO submitted by GABRIEL NICOLAS, JR. in partial fulfilment of the requirements for the degree of Master of Arts in Political Science.

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Date Aug. 19, 1976

DEDICATION

FOR THE BETRAYED WORKER-PEASANT

ABSTRACT

The 1910 revolution had deep repercussions at all levels of Mexican society. Some major promises embodied in the revolution only began to be implemented between 1934 and 1940 under the leadership of Lázaro Cárdenas.

Above all, in order to institutionalize the participation of all major socio-economic group in the articulation of public policy, President Cárdenas restructured the revolutionary party on corporatist lines: harmonizing class interests seems to have been his primary concern in restructuring the party. Moreover, harmonization of class interests could not be, in the Mexican context, separated from a larger share of the country's wealth being distributed to the laboring classes.

In a very concrete way Cárdenas' corporatism, which fostered the consolidation of the Mexican nation-state, grew in symbiosis with nationalism. The most nationalistic decision of the Cardenas' administration was the nationalization of the foreign petroleum industry.

In this thesis, I set out to establish the links between the particular class struggle in the petroleum

industry, and the nature as well as the stage of the general class struggle in Mexico during the 1930's. More specifically, I demonstrate that the nationalization of the petroleum industry by Cárdenas is best understood in the context of corporatism in Mexico during that period.

ACKNOWLEDGMENT

I take this opportunity to thank the following people who have been instrumental to the completion of this work. First and foremost my supervisor Professor Larry Pratt for his constructive criticism, comments and encouragement since the beginning of this work. I also wish to thank Professor Elwood Murray for his constructive criticism, and for succeeding in communicating to me his love for Mexico, and Professor David Johnson for his encouragement. My thanks also go to comrade Hassan Farrah for his constructive criticism and commentary. Finally, I would like to express my thanks for the excellent proof reading work done by Jane Short. To all, I am deeply indebted.

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CHAPTER I

INTRODUCTION

Corporatism, Nationalization, and Cárdenas' Mexico

On March 18, 1938, President Lázaro Cárdenas proclaimed in a public broadcast the nationalization of the petroleum industry in Mexico. In this work, we shall try to determine not so much the reasons why President Cárdenas made such a decision, but rather the extent to which this decision was important in relation to the historical development of the Mexican revolution up to the stage of the Corporate State.

In order to define clearly corporatism one must go back to its origins in the medieval guilds. However, a great deal of controversy has arisen over the subject of the medieval guilds.[1] Some historians suggest that medieval guilds were survivals of more ancient institutions such as the Roman Collegia or Scholae.[2]

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[1] The guild can be defined as a union of men in the same craft that started in Medieval times.

[2] Mathew H. Elbow, French Corporative Theory, 1789-1948 (New York: Columbia University Press, 1953), p.14.

According to medieval political philosophy, the guild played a major role in limiting the power of the state, its main purpose was to protect the individual from tyranny.[3] Several modern corporatists, such as Mazaraz and Durkheim were impressed by the role and function of the medieval guild as the representative of the trade in relations with the state.[4]

Analyzed superficially, corporatism may be mistaken for fascism. Elements of corporatism were parts of Mussolini's Italy and Hitler's Germany, both regimes used it as a means of bringing the economy under political control.[5] Corporatism for Mussolini had to be based on a unique party, a totalitarian state and a period of national glorification.[6] Mussolini's concept of corporatism could only lead to the rise of fascism as experienced by Italy under his control.

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[3] Ibid., p.15.

[4] Ibid., pp.23-24.

[5] George H.Sabine, A History of Political Theory (New York: Holt, Rinehart and Winston, 1961), p.920.

[6] Louis Salleron, Naissance de l'Etat Corporatif: Dix Ans de Syndicalisme en France Paris: Librairie Bernard Grasset, 1942), p.52.

In direct opposition to this, is the Swiss way. There, individual freedom is respected and the initiative to create professional groups and corporative organizations is left to the motivated.[7] The point here is that there are several types of corporatism and as a political system, corporatism is compatible with a diversity of ideologies.[8]

As a practical political ideology, corporatism has been adopted for a variety of reasons. However, there seems to be one constant cause: the desire to avoid or stifle bitter class struggle. In Latin America, the historical roots of corporatism are deep; according to Wiarda, it even constitutes the dominant socio-political tradition of that region.[9] In the specific Mexican context, upon Cárdenas' arrival in power, revolutionary violence had subsided; but class conflict had survived.

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[7] Ibid., p.53.

[8] Lawrence R.Alschuler, "Le Corporatisme comme Infrastructure de la Dependance au Mexique." Paper read at a Conference on Socialism, Populism and Corporatism in Latin America, January 30, 1976, Université Laval, Quebec, p.11. Hereafter cited as Alschuler.

[9] Howard J.Wiarda, "Corporatism and development in the Iberic-Latin world: persistent strain and new variations," The Review of Politics, 36, 1 (Jan.1937) 3-33.

Partly because no single class emerged as a decisive victor, a potentially volatile situation still prevailed. Cárdenas chose to raise the power of the state to create a structural apparatus of a corporatist nature, conducive to the harmonization of class interests, and/or to the postponement of the resolution of class contradictions.

Corporatism can be defined as a system or principle in which a whole system is organized into industrial, agricultural and professional corporations serving as organs of political representations.[10] Furthermore, the functional categories are non-competitive, all functioning in cooperation with the state.[10a] In Mexico, the political structure through which corporatism was introduced was the Mexican revolutionary party. A system of interest representation (instead of regional) was adopted along professional lines. We shall argue in the course of this work that the nationalization of the petroleum industry in Mexico is best understood when placed in the context of the Mexican political system under Cardenas.

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[10] Websters Third New International Dictionary, 1961, P.510.

[10a] Paul Schmitter, "Still the Century of Corporatism?" The Review of Politics, 36, 1 (Jan. 1974), 85.

Alschuler[11] and others have argued that the roots of corporatism in Mexico can be traced back to the 1917 Constitution. It is evident that the 1917 Constitution laid the legal ground for Cárdenas' decision to nationalize the petroleum industry. As a legal and contemporary concept, nationalization can be seen in opposition to the liberal conception of private property. Liberal philosophy views private property as an inalienable right of the individual. The 1917 Mexican Constitution departed from this assumption. Without going as far as abolishing private property, article 27 states that the ownership of lands and waters is vested originally in the Mexican nation.[12] Therefore, private property derives from the nation's own right, which may (or may not) grant it to individuals.[13] In fact, the spirit of article 27 was to add a social function to private property. This

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[11]Alschuler, p.11.

[12]"The Mexican Constitution of 1917 Compared with the Constitution of 1857", The Annals of the American Academy of Political and Social Science, (May 1917, supplement).

[13]Konstantin Katzarov, The Theory of Nationalization (The Hague: Martinus Nijhoff, 1964), p.2.

was in contradiction with profit maximizing organizations such as the international oil companies. Furthermore, fervent Mexican nationalism, as an integral part of the Mexican revolution, went hand in hand with the nationalization of the largely foreign owned oil industry. It is also necessary to point out that this nationalization did not threaten the tenets of corporatism since it was geared towards an external entity.

Having said in the beginning that our main purpose will be to place the nationalization of the Mexican petroleum industry in its social context does not presuppose that one should by-pass the capital-labor conflict that led to the expropriation decision. As the immediate cause of nationalization, the analysis of this conflict is important. Therefore, the work will be divided into two major (although implicit) parts: an analysis of of the capital-labor conflict, and a study of the social context in which the nationalization decision was made.

We shall do so by first examining the situation of the petroleum industry in Mexico, from its genesis to

nationalization. After giving this background information on the politics of oil in Mexico, we shall focus our attention on the other antagonist: Mexican labor, its origin, role in the Mexican Revolution and its situation vis-a-vis capital (in this case, the industry in question). The analysis then proceeds by a study of the capital-labor conflict in the petroleum industry. Starting from the premise that this particular conflict was but one aspect of class struggle in Mexican society, we begin the third chapter by pursuing a class analysis in this country, in order to further our understanding of the internal forces affecting the social process of Mexico. Further, the external forces are also studied, and finally the nationalization decision.

CHAPTER II

OIL AND POLITICS IN MEXICO

The Petroleum Industry in Pre-Revolutionary Mexico

Petroleum is a very recent commodity.[1] The first well was drilled in 1859 by E.L.Drake in the state of Pennsylvania. However, man has known of petroleum in its crude form much longer than he has utilized it.

In Mexico, during the pre-Columbian period, petroleum in its crude form was known to the Indians who referred to it as Chapopote.[2] The ancient Indians used the oil coming out of Chapopoteras mainly for religious rites and decorations.

In spite of the fact that surface indications of oil were evident, explorers and geologists alike repeatedly failed to locate oil deposits in Mexico. However, following some explorations, several American

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[1] Petroleum as understood here is a refined product of crude oil.

[2] The word "Chapopote" is composed of two elements: "Tzouctli" which means glue or gum, and "Popochtli" meaning smoke or odor. Government of Mexico, Mexico's Oil (Mexico, D.F.: 1949), p.9. Hereafter cited as Mexico's Oil.

and Mexican geologists concluded that there was no crude oil in Mexico, at least not enough to be exploited commercially.[3] But finally, at the turn of the century, the Englishman W.Pearson and the American E.L.Doheney carried out serious explorations which were successful.[4]

On December 24, 1901, the first petroleum law was enacted empowering the federal executive to issue concessions to individuals and private corporations to explore and exploit the subsoil of Mexico.[5] Subsequently, Pearson and Doheney were given the authorization to commence the development of Mexico's petroleum.[6] It is our understanding that this law reflected the aim of the Diaz regime to build an industrial state by facilitating the development of an oil industry. While at this point the primary objective of the Díaz administration was the building of an industrial base relying on foreign capital, (enjoying the inalienable right of private property) post-revolutionary Mexico reversed that trend. In fact,

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[3] Mexico's Oil, p.11.

[4] Ibid.

[5] Ibid., p.12.

[6] Ibid., p.11.

the 1917 Constitution gave the state the control of sub-soil rights as well as the right to intervene in order to regulate the industrial sector.[7] President Lázaro Cárdenas took the greatest advantage of this aspect of the Constitution. The government policies clearly illustrate the transition between these phases. In the first era, the government policy was to facilitate the development of an oil industry built on foreign capital, with a high degree of autonomy. The second era saw the oil industry, which was largely foreign owned, placed within the Mexican political context and ultimately nationalized.

In 1906, Pearson obtained large federal concessions from the states of Chiapas to Tamaulipas under the law of 1901.[8] Pearson's rival (Doheney) was also at work on behalf of Huasteca Petroleum Company whose shares were incorporated in a holding company established in 1907.[9] It was the golden age of the

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[7] "The Mexican Constitution of 1917," Art 27, Para. 1.

[8] F.E.Gerretson, History of the Royal Dutch (Leiden: E.J.Brill, 1957), IV, p.258. Hereafter cited as Gerretson.

[9] Ibid.

newly established industry. Relations with the government were harmonious, the labor front was peaceful and production steadily increased. From a total annual output of 10,345 barrels in 1901, production reached 12,552,798 barrels by the start of the revolution in 1910.[10] From then on, the foreign-owned oil industry had to operate within a new and dynamic political environment.

The Mexican Revolution and the Petroleum Industry

Henry Lane Wilson, then American ambassador in Mexico, argues that the forces of Francisco Madero had probably received financial support from the U.S. oil interests in Mexico.[11] However, soon after Madero's takeover, these interests became disillusioned. The revolution could not be easily controlled since its components were too dynamic, and contradictory. At first, the U.S. failed to realize that a new era had begun in Mexico's history. No distinction was being made between British and U.S.

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[10] Lorenzo Meyer, México y Estados Unidos en el Conflicto Petrolero, (Mexico, D.F.: El Collegio de Mexico, 1968), p.19.

[11] Henry Lane Wilson, Diplomatic Episodes in Mexico, Belgium, and Chile, (New York: Doubleday Page and Company, 1927), p.19.

capital, as both were classified as non-Mexican.

In spite of the ongoing revolution, petroleum production continued to increase in Mexico. From a total output of 12,552,798 barrels in 1911, it reached 55,292,770 barrels by 1917.[12] By this latter date, literally hundreds of oil companies were formed, of which more than twenty produced quantities sufficient for export.[13]

The years 1916-17 are considered as a turning point for the petroleum industry in Mexico. Under the Constitutionalist regime of Venustiano Carranza, Mexico endeavoured to pass laws concerning the ownership of the country's subsoil. A decree signed by President Carranza and published on August 31, 1916 said:[14]

> ... that it is the exclusive faculty of the Federal government to make

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[12] This is an annual output. Mexico's Oil, p.18.

[13] Merrill Rippy, Oil and the Mexican Revolution (Leiden: E.J.Brill, 1972), p.137. Hereafter cited as Rippy.

[14] "Decree of August 31, 1916, Relative to the Exploration, Exploitation and Commerce of Minerals, Petroleum (etc.)" Foreign Relations of the U.S.1917 (Washington, D.C.: Government Printing Office, 1926), p.1063. Hereafter cited as Decree of August 31, 1916.

> obligatory laws for the whole republic on mining, commerce and banking institutions, national lands and forest, public lands, waters of Federal jurisdiction, fishing in territorial waters, and on the organization of work in the various industries.

This decree was followed by another one dated April 13, 1917 establishing the rates of taxation for petroleum and its products.[15] Besides, prior to 1917, two petroleum taxes existed in Mexico, the impuesto de timbre, or stamp tax and the derecho de barra, or bar duties.[16] In spite of that, while oil production increased by 385 per cent from 1912 to 1918, tax receipts increased by only 232 per cent in the same period.[17]

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[15] For details consult Harold E.Davis, "Mexican Petroleum Taxes," Hispanic American Historical Review, 12, No.4, (Nov. 1932), p.410.

[16] The stamp tax was imposed on petroleum whether exported or used in the country. It varied in amount from $0.20 in 1912 to $0.75 in 1913 and $0.60 per ton in 1914. Ibid., p.406.

[17] Calculations based on data compiled by Wendell C. Gordon, The Expropriation of Foreign-owned Property in Mexico (Washington, D.C.: American Council on Public Affairs, 1941), pp.53-55. Hereafter cited as Gordon.

Oil production increased from 1917 through 1921, when it reached a high of 193,397,587 barrels.[18] However, this does not convey the conflict between the oil companies and the constitutional regime of carranza. This government had never really extended its control over all the oil regions which remained largely under the influence of General Pelaez. The oil companies found themselves in the uncomfortable position of having to pay taxes to both Carranza and the seditious General Pelaez. They could not possibly have avoided paying taxes to Pelaez since the latter's forces were in control of the oil region; yet, they found themselves being accused by the Carranza government with financing rebellion against the legal government of Mexico.[19]

Oil production was bound to reflect this politically troubled environment. Having reached a peak in 1921, it started declining steadily. This trend

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[18] Ernesto Lobato López, "El Petroleo en la Economica," Mexico Cincuenta Años de Revolución: La Economica, (Mexico, D.F. Fondo de Cultura Economica, 1960), I, p.321. Hereafter cited as Lobato López.

[19] Rippy, pp. 154-155.

remained unchanged, climaxing in 1932 with an all time low of 32,805,496 barrels, representing about an 83 per cent decrease relative to the 1921 high.[20] It would be very difficult for anyone to argue that this downward trend was a mere reflection in the pattern of world oil production. On the contrary, from 1920 to 1930 production of oil increased by 105 per cent in the world and by 103 per cent in the U.S.[21] According to Wendell Gordon,[22]

> After 1920 the oil companies invested no more large sums of money in Mexican oil... They preferred the more friendly legislation of Columbia and Venezuela... The reason why the production decline did not begin until some years after 1917 is obvious. The countries at war demanded oil wherever it could be obtained at any costs. Also it took the companies a little while to find new sources of supply. In Mexico itself the decline in production did not set in until wells drilled earlier began to become exhausted.

In fact, the decline in oil production can be attributed mainly to the fact that the companies no longer felt their

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[20] Lobato López, p.321

[21] Calculation based on data in Lobato López, p.321.

[22] Gordon, pp.53-54.

interests to be safe in revolutionary Mexico. Take for instance, the case of northern Mexico which had long interested Standard of New Jersey. The company felt that it should not invest there because of the recent tax, royalties and other obligations imposed by the Mexican government.[23] Standard of New Jersey reduced a high percentage of its investment in Mexican oil since it felt uncertain as to its rights.[24] The company preferred to invest in, as well as to transfer its ablest executives to more promising countries such as Venezuela.[25]

The Structure of the Oil Industry in Revolutionary Mexico

The petroleum industry was unable, or at least reluctant to adjust itself to the internal dynamics of the Mexican Revolution. This situation worsened with the coming of Lázaro Cárdenas to power in 1934. In order to adapt to the new situation the petroleum companies would

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[23] Henrietta M.Larson, Evelyn H.Knowlton, and Charles S.Popple, History of Standard Oil Company (New Jersey) 1927-1950:New Horizon (New York: Harper and Row, 1971), p.128. Hereafter cited as Larson.

[24] Ibid.

[25] Ibid.

have to cope not only with high taxes and royalties but, above all, with President Cárdenas' socio-economic policy which implied workers' strikes, higher wages, a strong labor movement. Furthermore, these companies had to carry the liabilities of being foreign-owned in a highly nationalistic social environment. One only has to weigh the depth of the nationalist spirit of the Mexican Revolution especially under Cárdenas, on one side, and on the other, the strength of the international petroleum companies, to realize the gravity of the situation.

In 1938, eighteen petroleum companies, their affiliates and subsidiaries were operating in Mexico.[26] The companies can be divided into five major groups: El Aguila, Huasteca, Sinclair, Mexico Gulf and Imperio.[27] In 1936, these five dominant groups were responsible for 93.2 per cent of Mexico's national production. El Aguila produced 59.2 per cent, Huasteca, 11.92 per cent, Sinclair, 9.8 per cent, Mexico Gulf, 7.3 per cent and Imperio, 4.98 per cent. The share of

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[26] Mexico's Oil, pp.83-84.

[27] Ibid., p.64.

independent companies only amounted to 6.8 per cent while all the five major groups were subsidiaries of foreign corporations.[28] In fact, El Aguila, Huasteca, Sinclair, Mexican Gulf and Imperio were controlled respectively by Royal Dutch-Shell, Standard Oil of New Jersey, Consolidated Oil Corporation, Gulf Oil, and Cities Service of New York. One may even assert that two powerful international oil corporations were literally dominating Mexico's oil industry at all stages of production: Royal Dutch-Shell and Standard of New Jersey. They controlled almost 75 per cent of Mexico's total oil production between them. The Royal Dutch-Shell was indisputably the dominant oil company in Mexico, producing in 1936, 24,493,964 barrels of oil, the equivalent of 59.7 per cent of a production total of 41,027,915 barrels.[29]

The power of the foreign petroleum companies operating in Mexico prior to nationalization was not merely a function of their control over the Mexican petroleum industry, but also a function of the financial

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[28] Ibid., pp.546-547.

[29] Ibid.

power of the "mother companies." During the early months of 1938, the possibility of expropriation was in itself enough to weaken the Mexican exchange position on the international money market.[30]

Then as now, the oil industry was affected by three major forces: the international oil companies, their home governments (mostly the industrialized oil importing countries), and the oil exporting countries. In Mexico, the powerful international oil corporations were literally dominating production. Between them, Royal Dutch-Shell and Standard of New Jersey controlled no less than three-quarters of Mexico's production.

Two main attributes characterize the major international petroleum corporations. The first is their individual worldwide integration of refining and marketing facilities in several countries.[31] The second advantage is the facility by which these corporations obtain large supplies of oil from several exporting countries.[32]

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[30] "Expropriation in Mexico," The Economist, 130, (March 26, 1938), pp.678-679.

[31] Michael Tanzer, The Political Economy of International Oil and the Underdeveloped Countries (Boston: Beacon Press, 1969), p.21. Hereafter cited as Tanzer.

[32] Tanzer, p. 24.

Being geographically diversified, these companies have strong bargaining power in their dealings with each host country.[33] In case of difficulty with a host country, they can cut production and compensate for the cut by increasing production somewhere else. Besides, because of their vertical integration, these companies can manipulate transfer prices, thus shifting profits to take advantage of overall tax opportunities.

One develops a clear idea of the major structural features of the international oil industry by considering the close links that always existed between the companies and their home government,[34] the dependence of oil exporting countries on a world market controlled by the companies, and the insulation of the oil sector from the rest of their economy.[35] Such was the structure and the strength of the petroleum industry at the outbreak of the capital-labor struggle.

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[33] Of course, in the 1930's, OPEC which greatly contributed to lower this potential did not exist.

[34] For a discussion on that subject see Tanzer, pp. 41-58.

[35] Ibid., p.60.

CHAPTER III

BACKGROUND TO THE LABOR MOVEMENT IN MEXICO

The Origins of the Labor Movement in Mexico

We have already mentioned that the implantation of an oil industry was connected to President Diaz' development outlook and his desire to industrialize Mexico. In fact, Porfirio Díaz and the *científicos* had decided that industrialization was the key to Mexico's future. This effort to build an industrial base had profoundly changed the country's social components by paving the way for the rise of an urban proletariat as well as of a trade union movement. Because the role of this emerging labor movement was crucial in the 1937-38 conflict in the oil industry in Mexico, it is important to study it. Let us turn our attention to this movement by studying its development and its role in relation to and within the Mexican political apparatus.

The first congress of Mexican Worker's Societies was held in 1876, the year in which Díaz became President. For the growing Mexican working class

the mutualist[1] approach could only be a short term remedy to improve their conditions. The word as well as the spirit of the laws prevented the workers from taking effective action.

By 1890, the Gran Confederación de los Trabajadores Mexicanos was founded. At this time, the influence of the anarcho-syndicalists was substantial.[2] On January 5, 1907, following President Díaz' ruling against the striking workers of Puebla, another strike broke out in the textile industry of Rio Blanco in Veracruz. Díaz ordered the Army to end this strike, and, through violent methods the army succeeded.[3] Subsequently,

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[1] The mutual benefit societies or Mutualidados constituted the first manifestations of the spirit of association in Mexico. They were formed by artisans and the first factory workers. These societies had existed earlier in Europe as an elemental form of labor organization. Their main purposewas to set up a trust fund by the members and for their benefit.

[2] S.Fanny Simon, "Anarchism and Anarcho-syndicalism in South America," Hispanic American Historical Review, 26, (1946), 38.

[3] Carlos M.Rama, Mouvements Ouvriers et Socialistes: l'Amérique Latine (Paris: Les Editions Ouvrières, 1959).

the combination of economic problems, political upheaval and an aging President brought an end to the Díaz dictatorship.

Francisco Madero triumphantly entered Mexico City at the head of the revolutionary forces, and was elected to the Presidency on October 15, 1911. In his Plan de San Luis Potosí, Madero reinstated the property to owners who had had their lands usurped by the peasants, but he made no rulings concerning the working class.[4] However, Madero did not have a negative attitude toward labor for it was during his Presidency that the right of workers to organize was recognized for the first time in the history of Mexico. Nonetheless, the Mexican labor movement was slow in taking advantage of its new recognition. According to Ashby:[5]

> In most cases, the newly created organizations were without any clear understanding of the place they should fill in the new scheme. Leaders were untrained and the masses of workers undisciplined; it was a period of blind drawing together, since

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[4] Joe C.Ashby, Organized Labor and the Mexican Revolution under Lázaro Cárdenas (Chapel Hill: University of North Carolina Press, 1968), p.8. Hereafter cited as Ashby.

[5] Ashby, p.8.

> the few previously mentioned strikes had had little effect upon the working class as a whole.

With the formation of the Casa del Obrero Mundial and the collaboration of this labor organization with the Carranza regime, the Mexican labor movement had by 1915 made some steps towards becoming a component of the power structure of the country.

The Labor Movement and the Mexican Revolution

The Casa del Obrero Mundial was created July 15, 1912. It united most groups of workers in Mexico, and became a center of social and propaganda activity. It included tailors, shoe makers, mechanics, carpenters, painters, plasterers, stone cutters, and textile workers.[6] After the assassination of Madero and the rise of the conservative General Huerta to power, the Casa del Obrero Mundial was prohibited and most of its leaders arrested.[7] The movement was reorganized shortly before

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[6] Moises Poblete Troncoso and Ben G.Burnett, The Rise of the Latin American Labor Movement (New Haven: College and University Press, 1960), p.98. Hereafter cited as Poblete and Burnett.

[7] These actions are well understood if one remembers that Huerta was a representant of the reactionary wing of the army, trying to restore the old order.

the constitutionalist General Venustiano Carranza assumed power (beginning of 1915). It became fully a part of the newly established regime partly because it had linked its fate with that of the constitutionalists by organizing six battalions[8] to fight on General Carranza's side against Villa and Zapata in 1915. On February 17, 1915, a pact was signed between President Carranza and the Casa del Obrero Mundial whereby the President pledged to reinstate the workers' Union. In exchange, the labor organization promised to maintain its six battalions in the constitutionalist fight against the revolutionary forces of Villa and Zapata. Having its fate linked with that of the group in power had its advantages as well as its disadvantages for Mexico's labor movement. Indeed, this labor-government relationship seemed to be the tendency in many parts of Latin America. Poblete and Burnett[9] argue that at the roots of this phenomenon is the great disparity in wealth prevailing between classes in those countries. According to these authors, the

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[8] These workers fighting units were called "the six red battalions." Poblete and Burnett, p.148.

[9] Ibid.

union could not do otherwise but to be drawn into politics since the conservative elements that held the bulk of personal wealth and were ready to subvert labor's efforts to attain fundamental rights could only be successfully contained if labor ceased to be an outsider to the political process.[10] There is also a strong possibility that financial difficulties faced by the early Latin American trade unions had forced them to seek financial aid from friendly politicians and governments, thus, contributing to their politicization.[11]

In Mexico, the labor-government cooperation had a great impact upon the drawing of article 123 of the 1917 Constitution, and this article is of major importance in analyzing the Mexican labor movement.

Labor and the 1917 Constitution

Article 123 of the Mexican Constitution[12] provides for an eight hour day, the enjoyment of at least

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[10] Ibid.

[11] Robert T.Alexander, Organized Labor in Latin America (New York: The Free Press, 1965), pp.14-15.

[12] Margarita de la Villa de Helguera, Constituciones Vigentes en la Republica Mexicana (México, D.F.: Universidad Nacional Autónoma de México Imprenta Universitario, 1962), pp.60-68.

one day's rest for every six days' work, the determination of the minimum wage by special commissions to be subordinated to the Central Board of Conciliation to be established in each state. Of vital importance to the effective functioning of the Mexican labor movement are paragraphs 16, 17 and 18 of the Constitution.[13] Paragraph 16 stipulates that workers and employers should have the right to unite for the defense of their respective interests by forming syndicates, The following paragraph affirms that the law shall recognize the right of workers and employers to strike and lockout. Complementary to these two sections is paragraph 18 stating that strikes are legal when carried out by peaceful means; they shall aim to bring about a balance between the various factors of production, and to harmonize the rights of capital and labor.

Article 123 of the 1917 Constitution did not mark an end to labor strife in Mexico, but a new beginning. This article did not fully reflect the reality of Mexican working conditions, instead it

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[13] The Mexican Constitution of 1917, Art. 123, paras. 16, 17, 18.

represented an aspiration or goal toward which labor would strive. Essentially, article 123 states significant aspirations which constitute the parameters in which labor demands can be made.[14] Finally, one can argue, as Turner[15] did, that the 1917 Mexican Labor Law transferred the radical nature of Mexican labor into one of stability. It did so by contributing greatly to the incorporation of the labor movement into the political process thus reducing the polarity between the two bodies. It was in this context and spirit, following the general labor congress of October 1917, that the Confederación Regional Obrero Mexicana, or CROM, was born.

Labor-Government: The beginning of a partnership

Although very corrupt, Luis Morones, founder of the CROM, is generally regarded as the first really influential Mexican labor leader.[16] Under his leadership,

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[14]Henry A.Marquand, Organized Labor in Four Continents (London: Longmans Green and Co., 1939), p.443.

[15]Frederick C.Turner, The Dynamic of Mexican Nationalism (Chapel Hill: The University of North Carolina Press, 1968), p.182. Hereafter cited as Turner.

[16]Ashby, p.15.

syndicalist as well as political actions were both contemplated for the purpose of attaining the movement's ends.[17] During the Obregon and Calles administrations (December 1920-November 1928), the CROM made considerable progress in increasing the number of unions, and in uniting the proletariat which was becoming familiar with syndical life and action.[18] In the middle of his term (around 1926), President Calles detached himself from labor in an effort to give back confidence to the upper classes whom he had previously ignored.[19] The reaction to Calles' new attitude was very weak, partly because labor leaders were caught by surprise. They all were learning the hard way, that close collaboration between labor and government did not necessarily mean that the working class exercised political power. Said Vicente Lombardo Toledano:[20]

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[17] Vicente Lombardo Toledano, "The Labor Movement in Mexico," The Annals of the American Academy of Political and Social Science, 208, (March 1940), 50. Hereafter cited as Lombardo Toledano.

[18] Ashby, p.15.

[19] Plutarco Elías Calles, Mexico before the World, Public Speeches and Documents. Compiled by A.H.Murray (New York: The Academy Press, 1927), pp.53,68. Hereafter cited as Calles. This is Murray's comment.

[20] Lombardo Toledano, p.50.

> The masses did not develop a consciousness of their historic role. Since the organization leaders did not orient the workers in regard to the theory of the class conflict and the immediate and ultimate objectives of the proletariat, the false notion was conceived that the participation of several members of the CROM in the government was a truly revolutionary device which would make it possible to effect the transition from a Bourgeois society to a Socialist society without a great crisis.

From then on (1926), the labor movement never stopped losing its political influence, this pattern continuing until 1934 and the coming to power of Lázaro Cárdenas.

President Cárdenas and the Mexican Labor Movement

By 1928, the CROM had slowly started to disintegrate, breaking into numerous local groups.[21] Lombardo Toledano (a creation of Cárdenas according to Brandenburg),[22] after initially suffering defeat as a candidate for Secretary General of the CROM, started organizing the Confederación General de Obreros y Campesinos de México known as the CGOCM, in October 1933.[23]

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[21] Ashby, p.16.

[22] Frank Brandenburg, The Making of Modern Mexico (Englewood Cliffs: Prentice-Hall Inc., 1964), p.84. Hereafter cited as Brandenburg.

[23] Ashby, pp.17-18.

On the labor front the CGOCM was very active, and Cardenas who assumed the presidency in December 1, 1934, was determined to allow the labor movement to gain new strength. Nonetheless, up to 1935 ex-President Calles was still very influential in the Mexican political scene; playing since 1928 the role of the power behind the throne. On June 12, 1935 Calles decided to confront Cárdenas either because the new President was showing strong signs of not wanting to be just a figurehead, or because of his sympathy to labor. Probably these two factors combined had Calles irritated enough publicly to denounce the recent strike waves as subversive. Without hesitation, organized labor rallied to the support of Cárdenas. Calles lost the showdown and was sent into exile. At last, President Cárdenas was the undisputed leader of Mexico. A new chapter in the Mexican Labor movement was about to be written.

In February 1936, a convention was held by activists in the labor movement of Mexico. The convention produced the Confederación de Trabajadores de México, or CTM. With the consent of President Cárdenas and perhaps his recommendation, Lombardo Toledano

was selected Secretary-General of the CTM for a five year term. The CTM was without doubt committed to Marxist ideology; its founding statutes[24] declare that Mexico's two major objectives should be political and economic liberation from imperialism and complete abolition of capitalism. With 3,594 affiliate organizations and a total of about 945,913 members, Lombardo Toledano's labor movement was one of the main components of Cárdenas' revolutionary party. Lombardo Toledano himself became fully integrated into the country's ruling elite.

Although relying heavily on the support of Lombardo Toledano, Cárdenas made sure that he ultimately retained the upper hand. A major difference between these two men seems to have been the commitment of Lombardo Toledano to the idea of Socialism as an international movement. Cárdenas was not as ideologically fixed as Lombardo Toledano; above all, he was a true Mexican nationalist. Therefore, as long as Moscow's policy ran parallel or coincided with his, the President

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[24] Robert Paul Millon, Mexican Marxist: Vicente Lombardo Toledano (Chapel Hill: University of North Carolina Press, 1966), p.119. Hereafter cited as Millon.

cared little about his lieutenant's international connections.[25] Like Lombardo Toledano, President Cárdenas seems to have accepted the hypothesis of the class struggle as inherent in the capitalist system. However, unlike the labor leader, Cárdenas saw that struggle not as a means to destroy the ruling classes, but rather as a path to permit the constant adjustment of their interests by (for instance) the working class and the industrialists. Besides, Cárdenas also realized that the workers represented a weaker class than the industrialists since they only possessed their labor power. They had to be backed by the state. Therefore, Cárdenas saw state intervention on behalf of labor as a way to achieve social justice.[26]

It is not impossible that had Cárdenas shared Lombardo Toledano's ideology the latter would have stood a good chance of succeeding Cárdenas as Mexico's President in 1940. But the President always managed to stop his protégé from becoming the obvious number two of his

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[25] Brandenburg, p.82.

[26] Ashby, pp.272-274.

administration. He did so by[27]

> ... splitting the agrarians, civil servants, bank employees, and teachers away from his giant labor central; by fostering a peasant militia officered by regular army men to balance Lombardo's militant industrial proletariat; by permitting Leon Trotsky, over the strong objections of Lombardo to assume political exile in Mexico...

In fact, in dealing with Lombardo Toledano, President Cárdenas showed great political skill. In Cárdenas' view, a balance had to be kept between labor and the other socio-economic sectors of society. While the labor movement reached a peak during the Cárdenas period, its power and influence were always under the control of the President. He used it as an instrument to strengthen the influence of the government over local as well as foreign industrial and commercial interests.[28]

Having analysed the respective situations, first, of the oil industry, then of the labor movement in Mexico, the stage is thus set to talk about the capital-labor conflict in this industry. It is our view that

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[27] Brandenburg, p.82.

[28] Ashby, pp.272-274.

this conflict was the immediate cause of President Cardenas' decision to nationalize this industry.

CHAPTER IV

THE CAPITAL-LABOR CONFLICT

Social Classes and the Mexican Revolution

Mexico's proclamation of independence may seem to be the result of the Criollos'[1] revolt against the Gachupines[2] and Spanish rule. However, the Criollos decided to sever Mexico's link with Spain in order to consolidate their power vis-à-vis the landless and oppressed peasant class.[3]

> Ultimately, the Criollos declared for independence not because of Spanish tyranny but because of the loosening of Spain's control over her colonies and the threatened usurption of power from below by Indians and Mestizos.

The War of Independence and its aftermath were under conservative auspices, and became a matter of Criollos versus Gachupines.

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[1] Criollo designates the local born Spaniards.

[2] Gachupines designates the European born Spaniards.

[3] James D.Cockcroft, "Mexico," Latin America: The Struggle with Dependency and Beyond, Ronald H.Chilcote and Joel C.Edelstein, eds. (New York: John Wiley and Sons, 1974), 239. Hereafter cited as Cockcroft.

According to Tannenbaum,[4] three factors are responsible for the attempted breakup of the large estates, during the struggle for independence: the abolition of the legal inferiority of the Indians, the abolition of entailment of large holdings, and finally, the confiscation of the church land. The old land tenure in Mexico, although weakened by the War of Independence was far from being destroyed. Later on the land policy of the Díaz' regime instead of solving the land concentration problem, worsened it. By the end of the Díaz dictatorship, Mexican lands were held by proportionately fewer people than at any time in the country's history.[5] In fact, one of the major contradictions of Díaz' regime is the fact that while the President and his associates were dedicated to progress, they remained unable or unwilling to get rid of large land holdings, and for that matter of the landed class. The causes of

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[4] Frank Tannenbaum, The Mexican Agrarian Revolution (Washington, D.C.: Archon Books, 1968), pp.8-9. Hereafter cited as Tannenbaum.

[5] For an analysis of President Díaz' land policy see Tannenbaum, pp.11-14.

this result from the following aspects of the Mexican colonial heritage: how independence came about, which class benefited the most from it, which one exercised the most influence within the country during the years following independence, and also the absence in subsequent years of a strong indigenous entrepreneurial or industrial class in Mexico.

However, from the end of the colonial regime to 1910, many things in Mexico had changed. The landed class although still the most powerful one, was politically weakened by, as we have just seen, some consequences of independence, and also by the very fact that progress was taken by the Díaz regime as being synonymous to industrialization. Furthermore, although a local industrial group had emerged, subsequent to Díaz's industrial policy, it was still feeble.[6] Finally, the working class, although very limited by the very

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[6] John H.Britton, "Urban Education and Social Change in the Mexican Revolution, 1931-1940," Journal of Latin American Studies, 6 (1973-74), 233.

parameters of Diaz' industrial policy, was, nevertheless, for the first time, existent in Mexico. Obviously, there were substantial differences between the Mexico of 1820 and that of 1910 when the revolution broke out.

Potentially the most revolutionary class in Mexico, during the violent phase of the revolution (1910-1917), was the peasantry.[7] In 1910, the rural population of the country amounted to 10,501,722,[8] out of a population total of 15,160,369.[9] In other words, around 70 per cent of Mexico's population was rural. One should not be surprised at the leading role played by this class in the revolution since it was so hard pressed by the land system.[10] Some light is thrown on its condition when one observes that 9,591,752 of the peasant population were

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[7] Cockcroft, p.251.

[8] Tannenbaum, p.28.

[9] Wilkie, p.299.

[10] One should be careful, however, not to exaggerate the extent to which the classes participating in the revolution were revolutionarily conscious. For example, certain peasant groups which participated in the revolution had little or no class consciousness.

classified as Peons.[11]

One should not minimize the fact that before, as well as at the start of the Revolution, the urban industrial working class was also potentially in a revolutionary situation. The various industrial strikes violently broken by the Díaz regime very well confirm this point.[12] Besides, "the six red battalions" composed of workers that fought under the constitutionalist forces of Carranza are a testimony and a symbol of the working class contribution to the revolutionary cause.

But why did an essentially peasant-worker revolutionary movement not result in a new peasant-worker order? One way to try answering this question is to remember that although the national industrialists were unable to fill the power vacuum when the old order crumbled, they were never wiped out, since the revolutionary leaders themselves saw industrialization as the only way out of poverty. Another way of looking at this question is to realize that the peasant class

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[11] Tannenbaum, p.28.

[12] Cockcroft, p. 262.

was unprepared, uneducated and poorly organized, and the working class could only be as feeble as the industrialization process itself. It is understandable that after the revolution succeeded, no single class was in a position to assert its political hegemony. In fact, only the state, backed and fueled mainly by an educated and urban middle sector was in a position to restore order, keep it, and give to the country new directions.[13]

Hoping that the preceding class analysis will help us understand the internal elements affecting Mexico (1917-1934) parallel to the capital-labor struggle, let us now turn to the analysis of the external factors influencing Mexico especially in the 1930's.

Cárdenas' Mexico and its External and Internal Environment

While the influence of the labor movement grew, President Cárdenas never lost its control. In spite of this, it is also true that shortly after Cárdenas replaced Abelardo Rodriguez in 1934 it became clear he was

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[13] John J.Johnson, Political Change in Latin America (Stanford: Stanford University Press, 1958), p.138. Hereafter cited as Johnson, Political Change.

determined to see that the Mexican Revolution fulfilled its socio-economic duties vis-à-vis the workers as well as the landless peasants. Thus, during Cárdenas' presidential term the Federal government was bound to pursue a more interventionist policy than under Cárdenas' predecessors. However, when one places the Cárdenas administration within a global context, it is clear that what appeared to some as bold radicalism was not at all alien and/or in opposition to socio-economic policies as practiced by other non-socialist countries.

During the early 1930's, in the wake of the great depression, Meynard Keynes' theory of state intervention to regulate economic life gained acceptance first in the United States and thereafter in England. North of the Mexican border, Franklin D.Roosevelt became President in 1932 and among his New Deal team were,[14]

> ... bureaucrats and diplomats with broader vision and perspective than the simple protection of every parcel of U.S.owned property, and while it may not have been as broad as the Mexican concept, it was not an alien idea...

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[14] Karl M.Schmitt, Mexico and the U.S. 1821-1973 Conflict and Coexistence (New York: John Wiley and Sons, 1974), pp.170-171.

Therefore, in relation to Mexico's influential northern neighbor and also to Western Europe, President Cárdenas was not acting outside existing pa:ameters.[15] However, his policies, especially in his dealings with the oil industry, were substantially different from those of his predecessors.[16]

As we have seen, when Cárdenas came to power in 1934, the external elements affecting Mexican political life were quite different from those in the 1920's for instance. As far as the Mexican social environment was concerned, new factors had become more important than before. Among them, the rising importance of the country's labor movement, under the leadership of Cárdenas' protégé Vicente Lombardo Toledano, was indisputably a most important internal evolution.

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[15] Certainly, to many conservatives in England for instance, Mexico was viewed almost as a socialist state. But we stated that Mexico was operating within existing parameters because it was not the first and/or the only country to conceive an active role for the state apparatus in its socio-economic life.

[16] Calles also had his share of problems with the oil industry. For example, his December 31, 1926 petroleum law was not complied with by 22 out of 144 companies. Calles, p.152.

The Conflict

During his electoral campaign, Lázaro Cárdenas had pledged his honor to the promise of fulfilling his obligations to the working class.[17] What Cárdenas really meant by this pledge was soon to be revealed by his handling of the conflict between the oil companies and the workers. Before 1935, the oil industry contained a total of thirty-five independent oil workers' unions. Thereafter, all these unions merged, with the approbation or even the benediction of Cárdenas, to form the new Oil Workers' Union, affiliating itself with the Confederación de Trabajadores de México, or CTM, headed by Lombardo Toledano.[18] In July 1936, the new Oil Workers' Union called a special convention to draw up demands for a collective labor agreement covering all 15,225 petroleum workers. The petroleum corporations were presented with the possibility of a general strike if they did not agree to begin negotiations within ten days.[19] The aggressive-

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[17] Ashby, p.82.

[18] Of course, a less divided labor movement was bound to help labor strength vis-à-vis capital.

[19] Ashby, p.196.

ness shown at this stage by the union is better understood when one remembers that Mexico's petroleum industry was dominated by foreign capital, mainly U.S. and British.

As the date of the strike approached, President Cárdenas intervened. Through the labor department, the President proposed to arrange a worker-employer assembly to be attended by representatives of both sides.[20] The negotiations broke down and the union presented a thirteen point statement to be considered as a basis for a settlement. The employers replied with a thirteen point counter-proposal.[21]

> It was a shifting situation, made up of positions which changed and moved at every moment, because they were based on certain conditions of acceptance by the other party of certain benefits to which the other party did not agree, as upon proposing a giving thing, each party did so on condition that the other party desist from certain demands and accepted others. [ii] In short, it was a question of conditional proposals and counter-proposals, and conditions were complex and numerous.

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[20] Mexico's Oil, p.518.

[21] Ibid., p.519.

One of the major differences between the unions and the companies was that the former asked for a forty hour week divided into seven days, whereas the companies proposed the same work week divided into five days, the worker would enjoy one "bonus" day and one rest day every week.[22] Besides, there existed a difference of 40 per cent between the union's wage and salary demands and the companies' offer.[23]

No agreement having been reached, on May 28, 1937, a general strike was declared in the oil industry. As the days passed, different regions of Mexico faced a scarcity of petroleum. It became clear to the union leaders that the economic crisis caused by the strike could well undermine their favorable public image as well as the government's. Above all, the loss of government support could not be risked, and thus, the union decided

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[22] Ibid., p.525.

[23] Calculations here are based on data published by Rippy, p.204.

to intensify the struggle and to institute a "Conflict of Economic Order"[24] before the Federal Board of Arbitration and Conciliation. In turn, this board designated a commission of experts composed of Efrain Buenróstro, Under-Secretary of Finance, Mariáno Moctezúma, Under-Secretary of Economy, and Professor Jesús Silva Herzog, Counselor of the Department of Finance.

Mong other things, the experts discovered that the real wages of the oil worker at that time were lower by 16 to 20 per cent than those which they earned in 1934.[25] Comparatively, the real wages of the U.S. oil worker in 1937 were more than seven per cent higher than those of 1934. The commission proposed that the minimum wage in the petroleum industry should be five pesos a day.[26] It concluded the companies should increase their

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[24] Under Mexican labor law, when in a labor dispute an agreement cannot be reached because the company(ies) involved allege a lack of economic capacity to accede to worker demands, either of the conflicting parties may appeal to the Board of Conciliation and Arbitration. The end result of this process is to determine whether the workers are making extravagant demands or the companies are making offers below their financial capacity.

[25] Mexico's Oil, p.591.

[26] The companies' minimum wage offer was 3.6 pesos. Ashby, p.204.

labor cost by about 26 million pesos. The companies, in turn, said they could offer 22.5 million pesos at the most.[27] This disagreement was mainly due to differences between companies' and government figures, regarding profits made by the companies. For example, after an examination of the companies' books, the government claimed that the total profit made by the petroleum corporations from 1934 to 1936 amounted to 169,015,000 pesos, while the companies maintained that their profits did not exceed 68,669,000 pesos.[28]

The companies rejected the conclusions of the experts report and brought the matter to the attention of the Supreme Court of the country, the highest legal body of Mexico. The decision made by the Supreme Court to uphold the conclusions reached by the experts was unequivocal:[29]

> ...the complaint is overruled in the present plea of Amparo with respect to the declaration of competency of special group number seven to take cognizance

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[27] Mexico's Oil, p.XLVIII.

[28] Gordon, p.111.

[29] Mexico's Oil, p.872.

> of the conflict of economic order instituted by the oil workers of the Mexican Republic against the following companies...

Finally, on March 16, the companies decided to offer the payment of 26 million pesos a year in wages and salaries, complying with the major conclusion of the board.[30] But this last minute effort by the companies to comply with the decisions of the board was only partial since they failed to agree with other requirements of the Labor Board.[31]

The Nationalization Decision

After it became clear that the companies were refusing to abide by the decision of the Supreme Court,[32] President Cárdenas decided he had no other choice but to settle the dispute.[33] On March 18, 1938, in a national

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[30] Larson, pp.130-131.

[31] Ibid., p.131.

[32] Apparently, the companies had strong reasons to believe that the decision of the Supreme Court was not fair to them. After 1936, the Supreme Court of Mexico became very dependent on the executive branch of government. Larson, p.129.

[33] Although the U.S.Ambassador to Mexico, Josephus Daniels believed that the primary issue was the labor

broadcast, Cárdenas declared the nationalization of the petroleum industry.

Every year on March 18, Mexicans joyfully and proudly celebrate "Petroleum Day." While Cárdenas' decision represents a great victory for the labor movement, it transcends the labor-capital dispute. As Lombardo Toledano said a few hours after President Cárdenas had read the expropriation speech:[34]

> All those present at the transcendental act of the reading of the manifesto... have agreed in affirming that this document has the value of an act of national economic independence, in the same manner as that of 1821 has the significance of the act of the political independence of Mexico. The political revolution, after more than a century, has produced dialectically the economic revolution. Mexico begins to acquire today a profound sense of its great destiny.

It is understandable why, for people like Lombardo Toledano, who were caught in the middle of the

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dispute and that Cárdenas' original objective was not expropriation, most of the excutives of the companies remained convinced that right from the start, expropriation was the President's objective. Larson, p.131.

[34] Millon, p.127.

action or were, more accurately, participating actors, this labor-capital clash appeared in itself so important. However, having had the immense advantage of hindsight, we are in a position to state that this complicated conflict can only be considered as the immediate cause of nationalization. We consider it only to be the immediate cause, since the nature of the situation of labor as well as that of the oil industry were mere consequences of deep rooted social changes that began with the 1910 revolution up to the point of a corporate state under Cárdenas.

CHAPTER V

THE POLITICAL ECONOMY OF CÁRDENISMO

1. Cárdenas and the Mexican State Apparatus

A. The Political Ideology of President Cárdenas

Born on May 21, 1895, in Juquilsan, Michoacan, Lazaro Cárdenas was of modest origin. When his father died (1910) Cárdenas was only 15 years old. Soon after he was fighting on the side of General Obregon, against the federal army. After Obregon occupied Mexico City on August 10, 1914, Cárdenas was promoted to major, a promotion earned through his fighting prowess against Zapata's troops.

Cárdenas' political ideology developed and matured from the long and violent reality of the Mexican revolution itself. The two deep rooted political principles most dear to him were: respect for popular verdict, and respect for established governmental authority. As governor of the state of Michoacan between 1928 and 1932 he demonstrated his honesty by eliminating corrupt bureaucrats.

Cárdenas' views on the role of the state require some discussion. For Cárdenas the promises of Social Justice carried by the Mexican revolution could only be fulfilled

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[1] Nathaniel and Sylvia Weyl, The Reconquest of Mexico: The Years of Lazaro Cardenas (London: Oxford University Press, 1939), p.76

through the active mediation of the state. This principle was clearly elaborated in his speech delivered on March 28, 1934:

> ...under this doctrine the function of the Mexican state is not limited to a mere guardianship of order; nor is the state recognized as sole ti le holder of our economic wealth; rather there is discovered a concept of the state as the regulator of the important economic phenomena of our regimen, of our wealth production and wealth distribution.

In the same speech, Cárdenas, usually a man of action rather than a theoretician, adopted a theoretical approach by comparing the ideology of the Mexican revolution to other existing ideologies:[3]

> The Mexican revolution progresses toward Socialism, a movement that draws away equally from the super-annuated tenets of classical liberalism and from the norms of the communistic experiment being made in Soviet Russia. It draws away from individualistic Liberalism because this doctrine proved incapable of unrestrained delivery of the sources of wealth and of instruments of production to the selfishness of the individual. And our revolution draws away from State Communism because it does not fit in with the idiosyncrasy of our people to adopt a system that deprives the individual of the entire fruit of his effort, nor do we desire to substitute for the individual boss the state as a boss.

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[3] Ibid.

Cárdenas' understanding of Liberalism and of Communism may not have been as precise and sophisticated as that of a master dialectician. However, this loose and somewhat pragmatic ideological position places his conception of the Mexican Revolution in full perspective. Clearly, Cárdenas saw himself as not simply the proponent of a particular class, but the representative of all classes for the purpose of the glorification of the nation-state. In other words, nationalism, deeply rooted in the traditions of Mexico and of the revolution itself, can be seen as a principal component of the ideology of Lazaro Cárdenas. By siding, for instance, with the Mexican oil workers against powerful foreign interests, Cárdenas proved to have absorbed the nationalist spirit and norms upon which revolutionary Mexico rested.[4]

B. The Changing Role of the Mexican State

In a monumental work on the Mexican Revolution, James W.Wilkie[5] distinguishes four ideological periods in the dynamic course of the Mexican Revolution: the

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[4] Turner, pp.34-35.

[5] James W.Wilkie, The Mexican Revolution: Federal Expenditure and Social Change in Mexico since 1910 (Berkeley: University of California Press, 1967), pp.35-39. Hereafter cited as Wilkie.

political, social, economic, and balance revolution. But implicit in the Wilkie thesis is the division of revolutionary Mexico into two broader ideological periods.[9] During the first, the state acted as a quasi-passive administrative machine, and during the second, as a socially and economically active political apparatus. From 1913 to 1920, amid the radical talks of aiding the masses, Mexico's government based on a new found and fragile consensus, could really do little. However, with the arrival of Cárdenas in power in 1934, the old concept of the administrative state was abondoned when the President sought and found greater funds which he used for state action. The end result of Cárdenas' policy was a qualitative transformation of the politico-economic life of Mexico.

If Cárdenas succeeded in qualitatively changing the role of the state, it is nonetheless important for one to remember that the process of consolidation of the power of the state in Mexico started long before 1934.

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[9] For more details see Wilkie, p.37.

When Benito Juárez became President in 1858, the country as a whole was still to a large extent functioning in accordance with the same norms and values solidly established over three centuries of rule by the Spanish crown. Juárez, however, was determined to rule according to the letter and spirit of the liberal Constitution.[10] This regime did not think it proper for the state to intervene into, or to direct the economic life of the country. Furthermore, the liberal principles of the Juárez administration demanded freedom for internal as well as external trade in order to achieve economic development.[11]

In 1876, Porfirio Díaz came to power in Mexico. He seemed to believe, as Juárez before him, that foreign capital and export were keys to the country's development;[12] while economic laisser faire remained at the center of the official economic ideology. In fact, Juárez and Díaz viewed the state as being the guarantor

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[10] Raymond Vernon, The Dilemma of Mexico's Development: The Role of the Private and Public Sectors (Cambridge: Harvard University Press, 1963), p.33. Hereafter cited as Vernon.

[11] Vernon, p.35.

[12] Ibid.

of security and stability with a passive role in the socio-economic field.

During the first decade of the revolution, one can hardly say that a national state existed in Mexico. Some of the major pillars supporting a modern state were non-existent. For example, there were neither a genuine national currency, nor a central bank, and not even a true national army or a civil service.[13] However, the 1917 Constitution had opened the way to a consolidation of the power of the presidency and/or that of the state. According to Vernon,[14] at the Constitutional convention of 1917 there were only two propositions that rallied near universal agreement. The church, foreign interests, and the land owners, which dominated the Mexican political structure, would have to surrender their power. On the other hand, the state had to assume more responsibility. The convention also agreed to strengthen the power of the presidency by granting to the president the right to veto, to initiate legislations and also to

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[13] Ibid., p.59.

[14] Ibid., pp.62-63.

issue personal decrees. Furthermore, the new Constitution gave to the state its legal basis to intervene in the economic life of the country. Besides, the 1917 Constitution added to the traditional guarantees consecrated by an individualistic society, others, which were supposed to protect the interests of groups and the community as a whole.[15]

During the 1920's, the growth in the strength of the central government was persistent. Plutarco Elías Calles who entered office on December 1, 1924, contributed much to strengthen the power of the state. In fact, it was Calles, not Cárdenas, who first injected the state into economic life on a broad scale.[16] President Calles put firmly in the hands of the state the direction of the fiscal and monetary system by creating the Central Bank of Mexico. He also took the first step to professionalize the army under the able direction of Secretary of War, General Joaquín Amaro. President Calles' policy to create

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[15] Enrique González Aparicio, "New Forms of Industrial Organization in Mexico," Annals of Collective Economy, 15, (1939), 96. Hereafter cited as González

[16] Brandenburg, p.75.

a modern and strong state, along with the validity of his economic policies created a general atmosphere of confidence. Real estate developers as well as industrialists and financial interests thought the time had come to invest in revolutionary Mexico.[17]

In 1929, while Calles was the power broker of Mexico, all the regional political bosses were invited to affiliate with a single national party:[18]

> This invitation set off local revolt, but it was quickly crushed. In the end, recognizing the growing power of the national center, and calculating that they had more to gain in acquiescence than revolt, the generals and local civilian leaders responded to the call.

However, Calles waited until 1932 to overhaul the revolutionary party. He did so by introducing the idea of functionality whereby various interest groups such as labor unions and government employees should play a formal role in the structure of the party.

When Cardenas was elected President in 1934, although the cluster of national interests upon which

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[17] Ibid., pp.74-75.

[18] Vernon, pp.69-70.

the stability of the government rested was narrowly based, a young national army and a growing bureaucracy existed. During his presidency, Cárdenas never failed to carry out and develop Calles' policy aiming at creating a strong national state. More important, while managing to steer the development away from totalitarianism, President Cárdenas laid the foundations of the Corporate state.

C. State Interventionism under Cárdenas

The consolidation of a strong state by Cárdenas was not an end in itself. The President believed instead that in order to be active, the state had to be strong. Under the leadership of Cárdenas, the state did intervene actively, essentially in the agricultural and industrial sectors and through its federal expenditure policy.

In the agricultural sector, the operation of state credit for Ejidatarios goes back to 1926, but great impetus was given to this system when Cárdenas became President in 1934. It was during this latter year that the National Ejidal Credit Bank became a reality. This organization became the most important component of the existing state credit system, in the government effort

to exert a greater influence upon the agricultural sector of the economy.[19] While in 1926 the total loan advances to agricultural associations and individuals amounted to 1,905,000 pesos, in 1934 they reached 3,496,000 pesos and soared as high as 13,135,000 pesos by 1937.[20]

President Cárdenas' industrial policy resembled his agricultural policy to the extent, at least, that state intervention and control was the common denominator. In 1937, he created the National Workers Bank for industrial development, and co-operatives which represented a capitalization of about 26,000,000 pesos, with around 12,000 members, were directly administered by this bank.[21] As a government tool, the National Workers Bank was empowered to give long term credits to co-operative organizations and others. Furthermore, that bank could decide which new industry could be established.[22]

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[19] Antonio Vargas Macdonald, "Agrarian Reform in Mexico," Annals of Collective Economy, 15, (1939), 136-137.

[20] Ibid., pp.135-136.

[21] Gonzalez, p.99.

[22] Ibid., pp.98-99.

Also, Cárdenas created or expanded other public credit institutions such as Nacional Financiera, Banco de Credito Ejidal, Banco Nacional de Commercio Exterior, etc.[23] Finally, the powers of the Banco de México were broadened.[24]

In the sphere of federal expenditure, the increasing role of the state during the Cardenas administration is well explained by J.W.Wilkie.[25] This author's accounting federal expenditures in Mexico before, during and after the revolution are quite revealing. For instance, whereas actual federal expenditure only took 6.3 per cent of the budget in 1925, and 6.7 per cent in 1934, it reached 8.6 per cent by 1940.[26] Another indication is the projected and actual expenditure. In 1911, projected and actual budget were 105,432 pesos and 97,293 pesos, in 1927 they reached 318,721 and 310,082 pesos, and 445,266 and

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[23] Vernon, p.72.

[24] Ibid.

[25] Wilkie, pp.1-8.

[26] Ibid.

582,228 pesos in 1939.[27]

The difference in federal expenditure between Cárdenas and his predecessors was not only quantitative, but also of a qualitative nature. Once again, this is well illustrated by Wilkie[28] who compares government expenditures from 1900 to 1963. This study conclusively shows, among other things, that federal expenditures under President Cárdenas were more oriented than before towards the social and economic fields, as opposed to the administrative sector.[29] For Wilkie,[30] Cárdenas' expenditure policy marked the turning point of Mexico's revolution.

2. Corporatism and Functionalism in Mexico

A. Cárdenas and the Vital Economic Sectors

Cárdenas' agrarian policy had a profound impact on Mexico's rural population. By 1940, the population living on the haciendas had

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[27] Ibid.

[28] Ibid.

[29] Ibid.

[30] Ibid., p.37.

dropped from about 3,000,000 in 1910 to 800,000.[31] According to Vernon,[32] the Cárdenas land reform program drastically changed the political power structure of the country's rural areas. More important, this success seems to have contributed to Cárdenas' decision in 1938 to reorganize the Revolutionary Party on lines which reflected the diffusion of power.[33]

Deep changes, related to Cárdenas' conception of the organization of Mexican society, had also occurred in the industrial sector. Besides expanding the economic apparatus of the government, the president also rejected the idea of a division of the business community into the commercial and industrial sectors, President Cárdenas combined the National Confederation of Chambers of Commerce, CONCANACO, and the Confederation of Industrial Chambers of Mexico, CONCAMIN, into one large association.

Furthermore, before Cárdenas' presidential term came to an end in 1940, the private sector of the

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[31] Vernon, p.73.

[32] Ibid.

[33] Ibid.

economy had recognized and accepted his economic ideology. A major practical aspect of this ideology was the government's right to invest and produce wherever private industry could not. Another aspect was the government's duty to regulate the country's economy on behalf of the public interest. Finally, with the government gaining control of the basic utilities before Cárdenas left office, the division of responsibilities between the private and public sectors, the main characteristics of modern Mexico, had been established.[34]

One must recall that upon Cárdenas' arrival in power, the violent phase of the revolution was well over, but class conflict had survived. Partly because no single class emerged as a decisive victor a potentially volatile situation still prevailed. Cárdenas had but two alternatives: either to let the revolution run its full course by embracing Lombardo Toledano's ideology as well as its implications, or to use the power of the state and create a structural apparatus of a corporatist nature,

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[34] Ibid., p.86.

conducive to the harmonization of class interests and/or to the postponement of the resolution of class contradictions. Having decided that the Mexican revolution had devoured enough of its own sons, President Cárdenas chose the second alternative. The means by which he would implement this choice was the Revolutionary Party.

B. Functionalism and the National Revolutionary Party

The Partido Nacional de la Revolución, PNR, one recalls, was formed in 1929 by Calles. The PNR included the most influential political leaders in the country. The idea was to give the dominant groups an institutional basis. Two important results of such an institutionalization were that those elected to office were inside of one party and thus, more likely to represent the real balance of political power, and were less likely to provoke armed rebellion.[35] This for Calles was the logical and practical complement of a speech given September 1928,[35a] in which he stated clearly that the revolution was not a process of liberation but of ordering.

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[35] Henry Bamford Parkes, "Political Leadership in Mexico," Annals of the American Academy of Political and Social Sciences, 208 (1940), 15.

[35a] Ibid.

In March 1938, President Cárdenas decided to reorganize the revolutionary party (PNR), as well as change its name to Partido de la Revolución Mexicana, PRM.[36] The new party was to operate along occupational, functional lines. In the structurally new party, four sectors were created: Labor, Agrarian, Military and Popular sectors.[37] President Cárdenas was neither heading towards the building of a Liberal-Pluralistic Democracy, nor towards Communism. The concept of the inalienable rights of individuals is found at the very roots of Liberal Democracy. Besides, in order to prevent the violation of individual rights, thus preventing majority tyranny, a system of "checks and balances" is advocated by liberal democratic theory, which disperses power throughout several institutions.[38] It is obvious that a contrasting theory of legitimacy emerges when the power of the groups is not considered as detrimental to

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[36]Miguel Osorio Markan, "El Partido de la Revolución Mexicana," Mexico: 1970, II, p.585.

[37]Ibid., p.601.

[38]Ronald Gene Eggleston, "Legitimacy and Ideology in a Corporatist State: A Case Study of Post-1910 Mexico," Diss.Syracuse, 1972, p.17.

individual equality to grant privileges.[39] Without a doubt, the monistic goal of consensus, unity, as opposed to competition, pluralism, is implicit in Cárdenas' reorganization of the Revolutionary Party along functional lines.

Furthermore, at the time Cárdenas chose functionalism as the new path for the Revolutionary Party, he obviously did not view Communism as the right path for Mexico's future. Prior to the creation of the PRM, Cárdenas resisted leftist pressure for a socialist Mexico. According to R.G.Eggleston:[40]

> The reorganized National Executive Committee of the PNR issued a 1936 manifesto claiming that "the new Democracy to which the PNR aspires is one in which organized laborers and peasants shall exert a growing influence of political and economic leadership upon the country" ... Within a year, however, Cárdenas had repudiated this strategy in favor of a corporatist policy, and the PNR was reorganized completely to include the labor and peasant sectors along side the military and popular sectors.

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[39] Ibid., p.601.

[40] Ibid., pp.48-49.

Liberal principles such as freedom of the press and regular elections were respected by Cárdenas, yet during the 1930's, Mexico was far from being a liberal democracy. During that era, the workers and the peasants became politically more influential than ever before; yet, during that period, Mexico was not, by any means, ruled by a proletarian dictatorship. Under Cárdenas, Mexico's political system had retained traditional and authoritarian characteristics, however to conclude that Cardenas' regime was totalitarian would be a complete fallacy.

In order to delineate more positively the parameters of Mexico under Cárdenas, one must also understand the post-Cárdenas era. Was it just a prolongation of the Cárdenas' era? If not, in what sense and why was it not so? Was the nationalization of the oil industry in Mexico an historical accident?

3. Cárdenas and Mexico's Push to Industrialization

A. Elusive Socialism or Mitigated Capitalism?

If President Cárdenas' prime concern really was the agricultural question, one can also argue that, from

a retrospective viewpoint, there seems to be a not obvious but nonetheless existing link between Cárdenas' socio-economic policies and his successors' concern with industrialization.

Richard Parks[41] states that Mexico's agricultural sector has contributed to the development process as a whole by increasing export of this sector:[42]

> Agricultural exports have increased from 610.1 million pesos in 1934-36 to 2614.5 million pesos in 1952-54, providing in the process support for the importation of foodstuffs, a substantial balance for foreign exchange.

Starting with President Camacho, from 1941 on, the Mexican government development policy favored industry over agriculture. For instance, under Manuel Avila Camacho, industrial development was encouraged in a

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[41] Richard W. Parks, "The Role of Agriculture in Mexican Economic Development," Interamerican Economic Affairs, 18, No.1.(1964), 23.

[42] Ibid., p.25.

number of ways:[43]

> ...about 400 manufacturing firms have been exempted from paying taxes and more of the same firms have also been allowed to import needed equipment and raw materials free of duty. In addition, new industries have received protection from competitive foreign products through tariff changes and by means of direct control of imports.

As far as land distribution is concerned, it may seem that President Camacho was not the revolutionary Lázaro Cárdenas was. While Cárdenas distributed 17,889,791 ha.of land to 774,009 peasants, Camacho distributed only 5,518,970 ha.to 112,447 peasants.[44] However, investment in the agricultural sector continued to increase, although since 1940, it has been directed essentially toward industrial crop production.[45] It is doubtful whether one should categorize Mexican Presidents of the post-Díaz era as revolutionaries and anti-

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[43]Sanford A.Mosk, "Financing Industrial Development in Mexico," Interamerican Economic Affairs, 1, No.1. (1947), 6.

[44]Jean Sirol, "La Réforme Agraire et les Difficultés de l'Agriculture Collectivisée au Mexique," Tiers-Monde, 4, No.15.(1963), 4-11.

[45]Richard W.Parks, op.cit., pp.19-20.

revolutionaries. As a revolutionary situation progresses, its original ideals must be adapted to new dynamic socio-economic realities. In Mexico, after Cárdenas, the middle sector seems to have played a substantial role in persuading the government to change its agricultural policies.[45a] This level of Mexican society knew that precipitous land distribution could have adverse consequences on the economy:[46]

> Any measure that would result in reduced agricultural production could upset the total economy. The wholesale redistribution of land offered such a threat.

J.J.Johnson[47] also argues that the middle sector feared that the state would finish by possessing nearly all the rural land. Had such a situation occurred before a solid base for private industrial enterprise was laid, it would have threatened the future of capitalism in Mexico.

We will not go so far as to say that the direction taken by post-Cárdenas Mexico was desired and pursued deliberately by Cárdenas. One should not forget

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[45a] Author's deduction.

[46] Johnson, Political change, p. 138.

[47] Ibid., p. 139.

however that President Cárdenas never questioned the commonly held belief that Mexico's economic development should pass through industrialization. It is vital to remember that Cárdenas favored, very strongly, state interventionism, a key policy underlying industrialization.[48] However, it would be too simplistic merely to evade all difficulties by stating that Manuel Avila Camacho simply betrayed Cárdenas, his friend and supporter of his candidacy,[49] once he took office.

It seems very clear that it is one thing to add a social function to private property and to nationalize basic utilities and industries; and another thing to go as far as changing the existing relations of production. President Cardenas surely viewed the social function of private property as the only non-violent path leading to socialism. But this sword is double-edged. Giving a social function to private property can

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[48] John J. Johnson, The Military and Society in Latin America (Stanford: Stanford University Press, 1964), p.139.

[49] Johnson, Political Change, p.142.

be the first step towards fundamental changes in the existing relations of production, as well as the last step toward the consolidation of the existing ones. In retrospect, we now know that post-Cárdenas Mexico opted for the second alternative. Cárdenas' ideological elusiveness during his term in office had left the future development of Mexico unstructured and Camacho (Cárdenas' choice as his successor) chose to consolidate capitalism. However, Camacho's capitalism kept nationalism as an essential ingredient, and his dealings with the boycott of the international oil industry are a testimony to that assertion.

CHAPTER VI

CONCLUSION

Some Economic Repercussions of Expropriation

By nationalizing the oil industry, President Cárdenas thus ended a bitter capital-labor conflict. Nonetheless, Mexico had now to face the consequences of the expropriation decision. It is not necessary here to outline the various techniques used by the oil companies to boycott production and distribution of Mexican oil on the market. The companies tried everything from influencing the U.S.Senate to amend the "National Stolen Property Act" in order to give to the President the authority to prohibit the importation of "stolen property," to bringing suit before European civil tribunals, contesting the legality of the distribution of what they persistently called "stolen property."

Long before the nationalization act, as early as August 1937, in the midst of the labor dispute, Mexico had to deal with monetary difficulties due to actions taken by the petroleum companies. In order to force the government to side against labor, the companies

had begun the withdrawal of deposits from Mexican banks:[1]

> ...flight of capital dropped the metallic reserves of the bank of Mexico from 194,000,000 pesos to 110,000,000 between August, 1937, and March, 1938. The capital, reserves, and deposits of private banks dropped 113,500,000 pesos from June, 1937, to April, 1938...

The action of the companies affected the confidence of other depositors who also withdrew their assets, with a watchful eye on the foreign exchange rate. In relation to the U.S.dollar, the Mexican peso dropped from 3.60 in 1937 to 5.00 on March 20, 1938.[2] Production in the Mexican oil industry also dropped sharply following nationalization from 600,000 metric tons a month to 78,000.[3] This drop was due essentially to the switching by the expropriated companies of their purchases of oil during the period from 1934 to 1938, of about three per cent, bringing a diminution of U.S.import of Mexican crude.[4]

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[1]Merrill Rippy, "The Economic Repercussions of Expropriation: Case Study: Mexican Oil," Interamerican Economic Affairs, 5, No.1, (1951), 53.

[2]Ibid., p.54.

[3]Ibid., p.60.

[4]Ibid., p.54.

To avoid further economic difficulties, Mexico had to turn to customers such as Germany, Italy and Japan despite ideological disagreements. The oil boycott thus became ineffective while the position of the U.S. in Mexican Trade was being threatened. Furthermore, the U.S. could not tolerate the idea of Latin American commerce being diverted and lost to any power outside the western hemisphere.[5] On December 23, 1942, over four years following Cárdenas' decision to nationalize, Mexico and the U.S. signed a reciprocal trade agreement, resuming normal commercial ties.[6] The oil boycott had thus failed.

The Petroleum Companies and Mexico's Revolutionary Context

In the course of our arguments and especially at the beginning, we have highlighted the alien character of the oil companies, and also the fact they were privately owned. Díaz and his científicos believed

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[5] Ibid., p.66.

[6] Ibid., p.67.

very strongly that foreign capital was a prerequisite for establishing a solid base for future Mexican economic development. This determined to a great extent the relationship that existed between the oil companies and pre-revolutionary Mexico. Needless to say, these companies were quite satisfied with an established pattern of behavior in which they enjoyed almost unrestricted land and tax concessions.

While the meaning of private property was altered in Mexico by the 1917 Constitution, the companies' perception of what was considered as the inalienable right of private property did not seem to coincide with the new social and legal reality. Besides, Mexico's nationalist and revolutionary attitudes had to be restrained, since (from the standpoint of foreign capital) they were liable to create a dangerous precedent. Nonetheless, with the failure of the oil boycott a precedent was not only created but established.

Furthermore, it is important to state that President Cárdenas' economic policy was never in fundamental opposition to private property. The challenge to private property was made when and where the government

felt its existence or mode of operation represented a threat to the well being of the lower classes. The institution of economic and political structures conforming to those of corporate state by Cárdenas was the result of his pragmatic approach to Mexican politics whereby he would try to satisfy the demands of the revolutionary classes while at the same time preserving all classes. Cárdenas' concept of social justice did not include a transfer of ownership of the means of production, simply a more equitable distribution of the economic surplus. Another way of looking at this question is to view it not as a matter of more equitable distribution, but as a reduction of expoitation of the workers. A defender of such a view would therefore state that the expropriation of the surplus created by the workers was reduced.

One only has to realize the importance of the labor movement in President Cárdenas' corporatism to understand his pro-labor stand during the conflict. As seen earlier, the labor movement had gained strength since the beginning of the revolution. In spite of this, Cárdenas never lost control of it, and used this movement

to counterbalance the influence of emerging local as well as foreign interests of the commercial and industrial types.

Finally, the emotional aspect of the conflict is well exemplified by Lombardo Toledano's outburst when he learned of Cárdenas' decision to nationalize the petroleum companies. By early 1938, the conflict had become a struggle with symbolic importance between foreign domination and the Mexican people. Cárdenas' decision to nationalize then became inevitable.

In fact, the oil industry failed to place itself within the context and the moment of the ongoing Mexican revolution. Neither did it place itself within the context of social justice as conceived by Cárdenas. In nationalizing the petroleum industry, Cárdenas could exemplify the nationalist spirit of the revolution, while implementing forcefully the social function of private property.

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